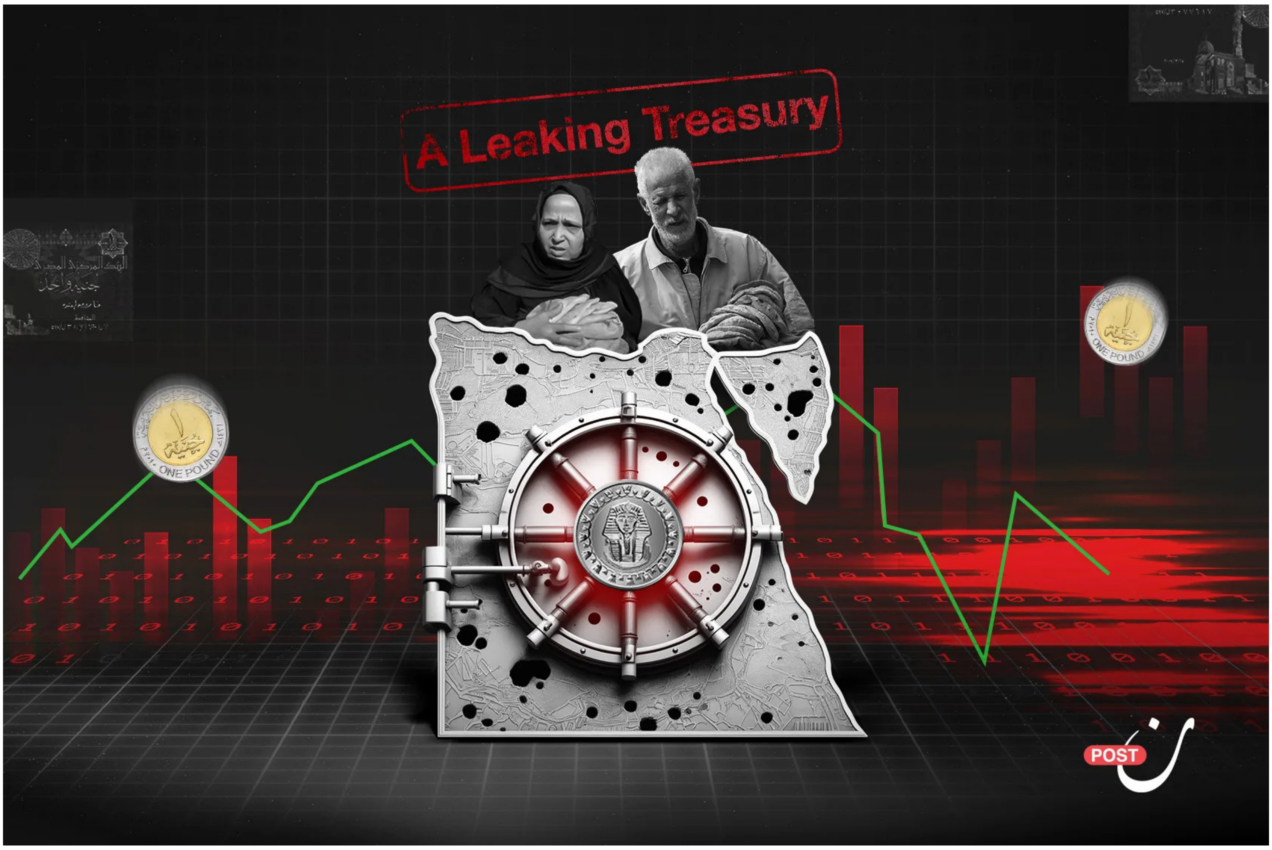
Government Subsidies in Egypt... A Countdown to the Death of the Social Contract



At the end of May 2024, the Egyptian government announced that the price of subsidized bread would rise from 5 piastres to 20 piastres a 300% increase. That means a family of four that used to spend 30 Egyptian pounds per month on bread alone will now spend 120 pounds.

This decision will carry major economic and social consequences for tens of millions of poor households, given that around 70 million Egyptians rely primarily on subsidized bread, using it as a filling staple in the face of soaring food prices.

At the same conference where the bread price hike was approved, the prime minister hinted at a new government plan to overhaul the established subsidy policy and shift toward direct cash support a policy the government favors.

This move reflects how the government is aligning with the economic reform program promoted by the International Monetary Fund, along with policies skewed toward capital owners at the expense of lower‑income groups.

For the current fiscal year, the subsidy portion of the general budget stands at roughly 636 billion Egyptian pounds representing only about 16% of total expenditure in the 2024–2025 budget, which amounts to 3.9 trillion pounds.

Moreover, this support does not guarantee that households will spend the funds on essential goods; they may redirect them to other non‑essential needs. It is expected that vast segments of the population will be excluded from the planned cash‑subsidy program.

Even if a monthly cash allowance is granted, the severely diminished purchasing power of the Egyptian currency means that over time this allowance may not suffice to cover a family's basic food needs, especially since the government's cash transfers rarely keep pace with rapidly rising prices.

Symbolically, this step carries weight: removing bread subsidies has always posed a major challenge to successive regimes seeking to implement IMF decades‑old recommendations since 1977.

The current government, therefore, is not unique in its harsh handling of the subsidy system a system that once embodied a sensitive bond between ordinary Egyptians and successive governments.

The economic and social fallout of these measures, however, raises a persistent question: How much more can Egyptians endure? It is time to revisit the historical ledger of the relationship between the people of Egypt and their rulers, and the path that led us here.

The Origins of Subsidies

Subsidies have long been a fundamental pillar of the social contract between Egyptians and their rulers, organizing the economy and society, and playing a central role in sustaining governing systems.

Modern Egypt's history as political economist Nazih Ayubi argues in his book The Arab State's Inflation points to the era of Muhammad Ali of Egypt as the moment when the state, in the European legal‑institutional sense, was formed: a sovereign entity with internal bureaucracy, unified markets, and basic regulations.

It was in Muhammad Ali's lineage that one can trace the origins of the subsidy system as we understand it today. The state first adopted such mechanisms to regulate the economy and society, primarily to combat widespread black‑market activity a phenomenon that plagued Egyptian society especially during the two World Wars. The 1945 film The Black Market vividly captures how that society was shaped.

Following World War I, the Egyptian government imported wheat and flour, selling them at subsidized prices through government‑run outlets. Beginning in 1941, during World War II, the government expanded subsidies to include essential goods like sugar, kerosene, oil, tea distributed through a ration‑card system tied to family size. That rationing system, in one form or another, survives to this day, though much weakened.

Nasser's Welfare Expansion

Under Gamal Abdel Nasser, state intervention in the economy deepened. Following agrarian reform and nationalization campaigns, the regime offered a new unwritten social contract: political legitimacy in exchange for social welfare. Nasser framed politics not as rhetoric or slogans but as tangible action and economic policy to guarantee "a better life" for everyone.

State subsidies especially bread became central to this welfare agenda. After the 1967 defeat, the system broadened to include beans, lentils, meat proteins, electricity, gasoline, public transportation, and even textiles.

The subsidies targeted the mass population, not just the poor. By 1970, 20 million pounds were allocated for subsidies, with 75% going to food aid.

These welfare policies, along with land redistribution, rent controls, and expansion of the public sector, helped lower poverty levels in both rural and urban areas as observed by sociologist Saad Eddin Ibrahim. This period became known as the era of the welfare state.

From Nasser to Sadat: The Turning Point

The victory of 1973, however, marked a turning point. Under Anwar Sadat, Egypt embarked on a policy of economic liberalization and integration into the global economy, influenced by pro-Western ideology hoping to rely on American and Western aid.

The "open door" policy, though, failed to attract sufficient foreign direct investment: only about 5 billion Egyptian pounds flowed in during the first eight years. By 1981, foreign debt had surged to 22 billion US dollars, compared to 1.8 billion at the start of Sadat's rule in 1970.

Faced with persistent economic crisis and the collapse of domestic manufacturing in favor of rising imports, Sadat turned to the IMF. In 1977, Egypt secured a 600-million-dollar loan to address balance-of-payments deficits.

As a condition, support to basic goods weakened: spending on subsidies was slashed and prices of essential items, particularly bread, increased triggering what Egyptians remember as the Bread Intifada.

Though often portrayed as a spontaneous "hunger revolution," the Bread Intifada erupted with organized protests, especially by striking workers in industrial zones like the Shubra Al-Kheima steel plants and the Alexandria Dockyards.

The protests began on January 18 with slogans such as "Egypt's workers say: we can’t even find beans.” Over the following days, demonstrations spread across Cairo and elsewhere, culminating in burning of public buildings.

In response, Sadat reversed the price hikes but only temporarily. Thereafter, his regime enacted repressive laws criminalizing labor strikes, jailing labor leaders and key dissidents.

Thus while the regime kept expanding subsidies for bread and flour, it dismantled the political and labor freedoms that might challenge state power later.

Under Mubarak — Managing the Anger

When Hosni Mubarak came to power, he inherited two images: one of a murdered president, and the other of looming social unrest following the 1977 uprising. As historian Samer Suleiman noted, the lesson of 1977 was stark: any sudden and deep cut in public spending would trigger severe social explosions. Gradualism, therefore, became the regime’s sacred principle.

Hence, during the 1980s and 1990s, the state slowly dismantled the subsidy system without provoking widespread unrest. It removed subsidies from fish, chicken, tea, rice and by 1997, only bread, flour, sugar, and oil remained subsidized. Netanyahu, it also restructured food-ration cards and halted registration of newborns in the subsidy system as of 1989.

Bread remained technically subsidized, but the government manipulated its weight and size shrinking loaves from 150 grams to 130 grams while holding the price at 5 piastres. This gradual erosion prevented mass backlash.

Suleiman argues that political unrest arises not solely from economic strain but from conducive political contexts such as active labor movements and student activism, which Egypt lacked in the 1980s.

January 2011 – The Dream and the Nightmare

Over three decades, anger accumulated, culminating in the 2011 uprising. In its aftermath, the government of Essam Sharaf passed a budget of $91 billion the largest in Egypt’s history and subsidies once again accounted for about 20% of total expenditures.

Still, the underlying structural problems persisted: feeble economic performance and limited resources made this unsustainable.

By 2014, the first year of Abdel Fattah el-Sisi’s presidency, the regime had already begun dismantling public-subsidy systems, arguing that broad subsidies disproportionately benefited middle- and upper-income groups, not just the poor. Over a decade, subsidies for fuel and basic goods were withdrawn, and eventually even bread subsidies came under threat. Millions from the lower and middle classes found themselves vulnerable.

The government introduced a smart-card system for bread distribution: citizens must present their card at bakeries, and each registered individual is limited to five loaves per day. Undisbursed monthly quotas are converted into points redeemable for other subsidized food items. The state then positioned this as a shift from commodity-based subsidies to cash transfers.

Yet even after the allowance was raised to 51 pounds in 2018 (from 15–25 pounds in 2016), rampant inflation and currency depreciation rapidly eroded its real value. As researcher Mohamed Gad explains in When Will the Prices Go Down?, this austerity combined with token pay raises effectively shrank real subsidies to the poor.

For example: in 2008, food subsidies stood at about 21.1 billion Egyptian pounds, when the exchange rate was 5.5 pounds per US dollar roughly 3.83 billion dollars. Today, even though nominal subsidies measure around 134 billion pounds, when adjusted for the current exchange rate their value is only about 2.85 billion dollars illustrating how drastically the real value has declined.

The ration-card system still covers some 61.8 million people but broad reliance on direct cash support as a social-safety net has significant flaws. It demands up-to-date data systems and continuous evaluation, requiring a capable bureaucratic apparatus something the government lacks. In practice, many of the poor remain excluded, while aid often leaks to the non-eligible.

It increasingly appears that the real goal of cash-assistance initiatives is to gradually shrink the overall welfare burden.

The revolution raised many hopes but ended in a nightmare reminiscent of the herd of bulls gathering to break into the farm one night, only to find themselves led straight into the slaughterhouse.

Today's Egyptians have little to long for regarding a past "golden era." Perhaps only faint memories remain of some aspirations from the national-welfare project under Nasser or nostalgia for somewhat better living conditions under Sadat or Mubarak.

But when it comes to bread, ration cards, or subsidies in general, there are many different "eras" to look back on all seemingly better than the present reality. Over the past decade, Egyptians have endured successive rounds of subsidy cuts and austerity. What many once considered inviolable red lines the basic right to affordable bread have been repeatedly violated.

That social contract, once sealed between the state and its people, is now unraveling. And when that bond is broken, one must sound the alarm: the danger is not far off.

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